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SUBJECT: KENYA: SEPTEMBER ECONOMIC HIGHLIGHTS

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- [¶1.](#) KENYA BUREAU OF STANDARDS CHIEF SACKED; POTENTIAL POSITIVE STEP

Head of Civil Service Francis Muthaura fired Dr. Kioko Mang'eli, the managing director of the Kenyan Bureau of Standard (KEBS) on September 10. Scandals involving imported maize and oil inspections as well as constant complaints from the private sector over the flood of counterfeit products in Kenya reportedly led Muthaura to dismiss Mang'eli. Contacts tell us the Prime Minister's office also pushed for the sacking. The Kenyan Association of Manufacturers, American Chamber of Commerce of Kenya, and the Kenya Private Sector Alliance reacted very positively to the move but cautioned on the continuing need for institutional reforms at KEBS.

However, Minister of Industrialization Henry Kosgey, who oversees KEBS, contradicted the offices of Muthaura and the PM in Parliament on September 17, stating "Mang'eli is still the MD." According to Kosgey, only he has the authority to fire Mang'eli. While it appeared Mang'eli would remain in office pending the outcome of consultations among his supporters and detractors in government, September 22 media reports (combined with information from our own contacts) indicate that Mang'eli has been replaced by his Deputy. Comment: This is a potentially positive step for Kenya. Mang'eli was at the center of a range of corrupt practices. His successor will have to prove him/herself to be committed to the fight against counterfeiting as well as corruption for this move to be ultimately considered a success. End comment.

## 12. GDP GROWTH BELOW TARGET, GOK MULLS IMF PROGRAM REQUEST, FOOD/ENERGY PRICES SET TO RISE

In a September 21 meeting with a senior GOK Finance Ministry official, we learned that the global economic crisis plus the ongoing drought and other domestic limitations have driven growth below the Government's projection of 3 percent in 2009 (ref b). While official statistics are not out yet for the second quarter, our contact warned that growth was "bad." The official also warned that not much should be made of the first quarter growth number of 3.9 percent which only represented a return to normal levels of economic activity following the negative growth brought about by 2008's post-election violence during the same period.

Meanwhile, difficult economic times are reflected in Kenya's ability to borrow and collect revenues. The Finance official said that the GOK is now having increasing difficulty raising money through short-term, 90-day Treasury bills which are undersubscribed. News reports have also noted investor/tax payer concerns about whether a KSH 18 billion "infrastructure" bond earlier in 2009 was used for infrastructure at all. According to our contact, there is a KSH 6 billion revenue shortfall for the first two months of the fiscal year owing to the overall economic slowdown and gaps in the Kenya Revenue Authority's collections. In hopes of assisting with these looming difficulties, the official told us the GOK is still likely to pursue a Poverty Reduction and Growth Facility from the IMF (previous information indicates that it would be for \$500 million - ref c). A formal request to the IMF could come as early as mid-October.

Inflation reached 18% (8/08-9/09) and the Central Bank of Kenya has warned that consumers will continue to face high food and energy prices throughout the remainder of the year. Pervasive drought has caused poor agricultural and livestock production, higher water prices, and continuing reliance on imported maize - all contributing to pressure on food prices. Drought also has led to higher energy prices as Kenya increasingly relies on imported fuel for power generation to compensate for lost hydropower. A year ago, imported fuel contributed roughly 20% of the electricity to the national grid; last month it contributed 30%. With any luck, the Oct-Nov rainy season, boosted by El Nino, will bring ample rain to improve agriculture and hydro production, easing both food and energy prices in 2010 for already cash-strapped Kenyans.

## 13. AMBASSADOR PRESSES FOR AGRICULTURAL REFORM IN FACE OF RECURRING DROUGHT

At a September 15 donor's meeting hosted by Prime Minister Odinga and World Bank Country Director Johannes Zutt, the Ambassador focused on the USG's \$165 million (thus far in 2009) response to Kenya's food crisis. The Ambassador also emphasized our long-term recommendations, including Kenya's removal of duties on all grains through next June and restructuring of the National Cereals and Produce Board (NCPB). The Ambassador also described the new USG-led global food security initiative. Prime Minister Odinga said the current drought in Kenya is the most severe in years. He reported a 40 percent decline in maize production and that 70 percent of lakes, ponds, and pans were dried out completely. The PM spoke to the resources that Kenya has brought to bear and sought additional donor assistance. Multiple donors, led by the U.S., provided details on current assistance levels as well as additional assistance in the pipeline. All donors also focused heavily on the need for long-term reform and planning to avoid a recurrence of drought and its effects here given that drought is a regular, chronic threat to the country.

## 14. TURKANA WIND PROJECT PROMISES NEW ENERGY CAPACITY

The Lake Turkana Wind Project (LTWP) is a 310 MW renewable energy wind power project planned for Northern Kenya. If this project succeeds, Kenya's power capacity could increase by 25%. The project has not broken ground yet. However, per the current schedule, wind power generation could begin in June 2011 with completion of the project by July 2012. This \$590 million project is primarily financed by the African Development Bank. Dutch companies will develop the project using Danish turbines. The Lake Turkana Transmission Line Project (TRANSCO) involves the construction of a 266 mile transmission line from Lake Turkana to a sub-station north

of Nairobi. This portion of the project will cost \$180 million and be commercially financed. Work on the transmission line has not broken ground yet either. The GOK is requesting USAID support on technical capacity building for the Kenyan Transmission Company (KETRACO) during negotiations with TRANSCO. USAID is preparing a Statement of Work and expects capacity building activities to begin in November 2009.

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